

## **Toward an Alternative to the GDP: A Critical Analysis of the 2009 Report by the Commission on the Measurement of Economic Performance and Social Progress**

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### **Abstract**

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This paper explores the 2009 Report by the Commission on the Measurement of Economic Performance and Social Progress co-authored by the world renowned economists, Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi. It explores various skeptical arguments about the ability to produce complex models of global human diversity while producing an alternative to the GDP as a form of measurement of social and economic progress that can be leveraged for development policy-making.

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In the ambitious work, *Mismeasuring Our Lives: Why GDP Doesn't Add Up* (2010), world-renowned economists Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi present the 2009 Report of the Commission on the Measurement of Economic Performance and Social Progress in response to then French President Nicolas Sarkozy's invitation to rethink some of the fundamental ways we measure economic performance. Underlying this work is an attempt to re-imagine what 'growth' and 'progress' mean for all civilizations in terms of a more comprehensive and holistic understanding of 'societal well-being.' In the foreword to the publication of the report, Sarkozy goes on to say that the work of these economists should spark a 'revolution in thinking.'<sup>2</sup>

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<sup>2</sup> Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi, *Mismeasuring Our Lives: Why GDP Doesn't Add Up* (New York: The New Press, 2010), p. x.

After the worldwide disillusionment that ensued with the 2008 global financial crisis, he asserts that original economic thinking is required to put us ‘back on the foundation to truth...and to change our relationship to truth.’<sup>3</sup> Regardless of what we think about Sarkozy’s emboldened rhetoric, he is asking us to consider in sober fashion a ‘model of development, society and civilization’ that we can collectively design to ensure sustainability for present and future generations.

What follows in the preface, executive summary and actual contents of the report are some fairly compelling arguments and evidence from economists Stiglitz, Sen and Fitoussi—who summarize the discussion of a commission of experts from the field of economics predominantly but also economic psychology, sociology and political science. The fundamental possibility of such an alternative vision for development and progress is at stake.

The main thesis of the report is that the way we measure economic performance/growth and social progress through the use of the traditional GDP may not be an accurate way to understand overall well-being when examining the nuances and heterogeneity of individual to household to national levels of income. The Report’s experts draw a crucial distinction between the ‘measurement of well-being and the actual improvement of well-being itself.’<sup>4</sup> GDP can increase, but with it income can decline; or if income increases, then so can income inequality; or even furthermore, there can be a discrepancy between average and median income in which one can increase and the other decreases. To complicate matters, household indebtedness coupled with high consumption can lead to non-sustainability for the entire global economy if certain national economies do not begin to rethink the relationship between current economic forms of behavior on the one hand and linkages between unemployment, poverty and inequality on the other.<sup>5</sup>

In short, we are living in a rare historical moment. Today we can begin to question the very foundations by which we understand the *relation* between economic performance/growth and overall societal well-being, let alone ways to measure it (namely the traditional measurement of GDP).

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<sup>3</sup> Ibid., p. xi.

<sup>4</sup> Ibid., p. xvii.

<sup>5</sup> Ibid., p. xix.

Subtended within the enterprise of the commission is finding ways to broaden our metrics so that we have a more comprehensive picture of societal well-being for present and future generations, i.e. sustainable development. In addition to examining the strength of markets, the commission seeks to reveal ‘new attempts to measure societal well-being’ in which ‘no single indicator can capture the multidimensional nature of societal well-being.’<sup>6</sup> This requires that we not only look at the aggregate of income but its distribution. It also means we cannot continue to ignore the fundamental effect that economic sustainability has on environmental sustainability and vice-versa.

Our age of globalization complicates the dialectical relationship between local/national economic behavior and global capitalist forces that transcend the idea of the ‘nation-state.’

To summarize the structure of the commission’s report—and in addition to rethinking the GDP to measure the market economy—the economists call for new metrics to understand the interrelatedness of median income (the condition of most citizens), poverty measurement (the condition of the poor as a heterogeneous group), resource depletion and environmental degradation (the condition of the earth), and debt measurement (or the real chance for continuous, economic sustainability).<sup>7</sup> The thrust of the entire undertaking of the commission is to ‘build a new vision to improve life.’<sup>8</sup>

This paper will present the basic ideas, arguments and recommendations of the Report while critically examining some of its underlying philosophical assumptions. The paper attempts to examine the viability of building a ‘new vision’ while assessing the limits and logical incongruities of broadening the measurement and concept of ‘societal well-being.’ Ultimately this will require a critical judgment of the report’s ability to justify its reevaluation of the three main areas to move beyond the traditional GDP measurement: namely the complexity of issues surrounding 1.) national income accounting (government output, a more open economy, household production, the value of leisure and defense expenditure to maintain security);

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<sup>6</sup> *Ibid.*, p. xxv.

<sup>7</sup> *Ibid.*, p. xxvi.

<sup>8</sup> *Ibid.*, p. xxvii.

2.) effective ways to measure abstractions such as the ‘quality of life’ and individual and social senses of ‘well-being’; and 3.) the effect of global warming on an interrelated view of economic and environmental sustainability given the complexity of contemporary science. Moving from a focus on the aggregate to a more distributive picture requires an appreciation of fundamental human, social and interpretative levels in the diversity of experiences by different individuals and their differing perceptions of their different experiences. Without dismissing that important insight, the paper will assess the limits of the report’s ultimate claims to argue for a modality of measurement beyond the traditional GDP.<sup>9</sup>

In chapter two on the “Quality of Life” the authors pose an excellent question of how to rethink traditional views on economic performance while incorporating today’s consideration on environmental sustainability (in light of the scientific complexity involved in tackling global climate change) with an empirically-reasonable philosophical view of the ‘quality of life.’<sup>10</sup> For them, the idea of ‘well-being’ is truly multidimensional, but ways to think and measure that multidimensionality to inform sound social policy is wanting because many of the disciplines required to dialogue about multidimensionality have yet to find an integrated approach that account for human diversity.<sup>11</sup> There are many ways to account for a standard of living beyond mere income wealth creation and levels of consumption.

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<sup>9</sup> To be clear, we are not questioning the entire enterprise of the commission: namely their attempt to integrate a complex ethical consideration about well-being that takes into social justice issues of how income inequality can be justified in capitalist systems without overthrowing capitalism or revolutionizing society and economy as we know it today. That would mean a Marxist agenda, which by no means, is being entertained in the commission’s attempt to go beyond the GDP. Their main issues is to question the way we currently measure well-being while broadening the scope of the definition of what well-being means, i.e. beyond production and the total value of all goods and services produced in one year by any given national economy.

<sup>10</sup> By ‘empirically-reasonable’ we mean a philosophical description that can appeal to social scientists, particularly economists and policy-makers, who can form an understanding of an abstract notion such as the ‘quality of life’ in a manner that meets their concrete intuitions of what it means to describe something that can be measured as a physical reality.

<sup>11</sup> Multi-dimensionality consists of these categories: “material living standards (income, consumption and wealth); health; education; personal activities including work; political voice and governance; social connections and relationships; environment (present and future conditions); insecurity, of an economic as well as a physical nature.” See Stiglitz et al., p. 15.

One such example is the ability to consume the same amount of goods over a year without working the same number of hours (assuming the same wage) regardless of the GNI per capita of the country within one works in comparison to another country.<sup>12</sup> This points to ‘non-market activities’ that have to be accounted for when thinking of the standard of living regardless of market considerations of the prices of goods.<sup>13</sup>

The real issue at stake is how complex and multidimensional can a notion of the ‘quality of life’ be or become and still be measured concretely so it has a reasonable chance to affect social policy to improve the conditions of real lives. For one thing, the authors admit that the concept of the ‘quality of life is broader than mere economic production and living standards.’<sup>14</sup>

There are three major schools of thought at present, which help us conceptualize what we mean by the ‘quality of life’—and these are irreducible to mere measurement of income or other economic resources.<sup>15</sup>

First is the utilitarian view supported by psychological and economic measurement of subjective happiness as a general goal for most members of society. This typically means consumption of commodities enables one to not only fulfill basic needs (food, water, shelter, etc.) but to really thrive and be free to feel a sense of empowerment to do whatever they want at any given moment because they can afford to do so. Obviously without capital, one cannot assume indefinitely and therefore one’s freedom (if defined on the basis of indefinite consumption) is limited. And this presupposes that consumption (of any thing or commodity) at any level if linked to subjective happiness.<sup>16</sup>

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<sup>12</sup> *Ibid.*, p. 14.

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*, p. 61.

<sup>15</sup> *Ibid.*, p. 62.

<sup>16</sup> You see a person who keeps buying ice cream and is very happy when they eat ice cream; and this means there is some correlation between the amount they are consuming and how happy they are.

The second is the capabilities approach that looks at actual functions or what people do or are based on opportunities and freedoms that are available to them.<sup>17</sup> Capability is linked to freedom and development and the actualization of that capability is a measurable function across multiple categories and at various levels of achievement and agency. Two people may have the same income, but they have differing abilities to purchase comparable bundles of commodities if one has to spend all their income on dealing with a disability. That is the most common example used in the discourse of capabilities. There is an intrinsic social justice and freedom component built into this notion of development and hence determining the quality of life. A la Kant, each individual is an end in itself and should be maximized so that they create and live by the values they want and not restricted because of lack of opportunity or inability (non-capability) to achieve what they want. This can range from simply avoiding malnutrition to having a real political voice in one's society as a minority. When it comes to capabilities, one is not simply assuming individual self-interest and an upward curve to consume as much as one wants based on the capital or income or resource they command.

Capabilities are interrelated and differ for each individual, and individuals are dependent upon another in complex webs of relations in which each individual has different capabilities and conversions to functions to achieve similar states of well-being. The point is how can we set up fair and just institutions given the empirical reality of this human diversity (different abilities to do different things with different amounts of capital, income and resources) so that each individual can achieve what they truly value and at the level of accomplishment and agency to which they aspire. This is different from assuming a set amount (income, resources, entitlements) that should in principle lead to some set 'standard of living.'

The third approach is called 'fair allocations.'<sup>18</sup> This focuses on 'non-monetary dimensions of the quality of life (beyond the goods and services that are traded in markets)' that looks at individuals' different preferences while respecting the equality of all, and not just the amount people are willing to pay.<sup>19</sup> People have different preferences to do different things with the amount of capital or income they have at their command.

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<sup>17</sup> Stiglitz et al., p. 62.

<sup>18</sup> Ibid., p. 63.

<sup>19</sup> Ibid.

Unfairness sets in when some people are deprived because they don't have enough to be able to do what they want based on their preferences. It raises issues of fair allocation and distribution.

When combining the three approaches- utilitarian measurement of subjective happiness, capabilities focus on different possibilities, opportunities, freedoms, and abilities for people to achieve different functions based on what they value, and goal of equality for different preferences so that people are able to get what they want (regardless of monetary aspects of the quality of life), then we are approaching an ethical understanding of what a fair society could look like. For the authors of the Report, the integration of these three approaches to conceptualize 'the quality of life' takes far beyond the narrow-focus on a number provided by the GDP.

Here is where we can begin to ask some questions of the three economists and the commission's Report.

If one admits to human diversity and the unit of analysis begins at the level of what an individual can actually achieve to determine their 'quality of life,' then one runs the risk of an infinitesimally complex analysis that prevents any expedient measurement of well-being or development, let alone a just society, that most policy-making bodies require when ranking different countries according to their standard of living. It is as if ethics and justice can only be brought into economic discussions if we first admit that there is a stark gap between economic modeling of systems (based on a single numerical indicator as the GDP) and real lives that people live under so many complex, interrelated systems with a confounding number of variables. But then we continue to push for economic ideas that lead to global financial crises (such as the 2008 global meltdown) and increase severe or extreme poverty while trying to ask questions of fairness and equity of distribution when measuring the 'quality of life' based on different peoples' needs, abilities, freedoms and opportunities in overlapping and incommensurable contexts.

Simply put, can one truly handle the issue of gross economic inequalities within industrialized, developed countries and between developed and developing countries while pursuing an idea and measurement of the 'quality of life' and still keep all the elements of global capitalism in place?

For the elements of neoliberalism require minimal interference by states in markets, or deregulation and privatization, free trade, absolutely enforceable laws that protect private property, minimization of taxation as a curb or restraint on public revenue and the gross maximization of individual wealth (be it individuals, corporations or nations) at the expense of most of humanity. If one wanted to take a Marxist route, then one would have to say that global capitalism has to be completely overthrown and a new model of society and economy has to be based on some illusory notion of a class-less society and the abolishment of private property.<sup>20</sup>

GDP is the only way to measure and justify capitalism as we know it today. Questioning that as the way to measure the quality of life given the complexity of human diversity (different abilities to achieve different things) is the only way to bring justice into the discussion of distribution without questioning the basic tenets of capitalism.

But then is it really feasible to undertake what the Commission's purpose is, namely 'building a new vision of society' or 'civilization, development and progress' based on a richer and nuanced understanding of 'societal well-being?' What ultimately is the goal of this Report? This paper attempted to raise certain critical questions of the underlying assumptions of the Commission's Report on Economic Performance and Social Progress. At the same time it produced certain skeptical arguments about the ability of economics and the social sciences to produce a complete understanding of human diversity that can be translated into actual development policy outcomes.

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<sup>20</sup> Yes most today would consider this a phantasm, an unrealizable dream or a mere utopia. Few would take this seriously in the 21<sup>st</sup> century.